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SUBJECT: VIETNAM PREPARES TO BUILD FIRST MDB-FINANCED DAM

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¶1. (SBU) Summary: The Government of Vietnam (GVN) is set to begin construction in 2009 on the Song Bung IV hydroelectric dam, Vietnam's first multilateral development bank-financed hydropower project. USAID Senior Environmental Policy Advisor Leslie Johnston recently traveled to Vietnam to conduct due diligence on the dam and coordinate USG review of the environmental impact assessment (EIA). Over several days of meetings, GVN officials identified the Ministry of Natural Resources and the Environment (MONRE) as the agency that leads EIA reviews. Although officials emphasized generally their commitment to mitigate the negative impacts of hydropower development, they often demonstrated a lack of awareness of the potential implications, particularly the impact to fisheries. Johnston ultimately said she was undecided whether to recommend support to USAID for Song Bung IV, calling the EIA "weak on baseline data," including the analyses and mitigation measures. End Summary.

¶2. (SBU) USAID Senior Environmental Policy Advisor Leslie Johnston conducts due diligence on multilateral development bank (MDB) projects, including coordinating USG review for environmental and socioeconomic assessments related to the development of hydropower projects. Johnston, who is currently assessing the impacts of hydropower development in the Mekong Basin, visited Vietnam from February 25-March 7 to conduct due diligence on the 180-megawatt Song Bung IV hydroelectric dam, Vietnam's first MDB-financed hydropower project, financed partly by the Asian Development Bank (ADB). Before arriving in Vietnam, Johnston toured the site of another MDB-financed hydropower project, the controversial (and much larger) 1070-megawatt Nam Theun II dam in Laos. (Note: After a moratorium on the financing of large dam projects during the 1990s, the World Bank/IFC and the Asian Development Bank (ADB) are again lending their support to hydropower development while attempting to demonstrate to critics that they can mitigate the negative impacts that invariably accompany such projects.)

DECIPHERING THE GVN BUREAUCRACY

¶3. (SBU) Over several days of meetings in Hanoi, ministry officials described to Johnston and Econoff the baffling process by which the GVN vets EIAs for infrastructure development projects. Officials ultimately identified MONRE as the agency that leads the review of EIAs for projects of "national significance" - that is, those projects approved by the National Assembly and the Prime Minister. The giant 2,400-megawatt Son La hydropower station currently under construction 320 kilometers northwest of Hanoi is one such endeavor.

¶4. (SBU) For smaller scale projects, the responsibility falls to the provincial-level Department of Natural Resources and the Environment

(DONRE). If, however, the project spans two or more provinces, the central ministerial project sponsor - typically the Ministry of Industry and Trade (MOIT) - evaluates the EIA. The Prime Minister has the authority to exempt certain projects from an assessment. MDB-financed projects require two assessments - one using the bank's regulations and a parallel EIA according to GVN requirements. MOIT officials pointed out, however, that the "Hanoi Declaration," signed by APEC leaders in 2006, established a goal to harmonize parallel assessments wherever possible.

15. (SBU) Although GVN officials emphasized generally their commitment to mitigate the negative impacts of hydropower development, they often demonstrated a lack of awareness of the potential implications, particularly the impact to fisheries. Moreover, they often seemed reluctant to accept direct responsibility to ensure that developers executed all of the mitigation measures listed in the impact assessment. Officials at both MOIT and MONRE admitted that they do not possess sufficient capacity to ensure that developers implement every safeguard for each infrastructure project. Electricity of Vietnam (EVN) Vice President Dinh Quang Tri said EVN typically hires one of its own subsidiaries, a quasi-private consulting firm, to draft environmental assessments and supervise the state-run electricity monopoly's development work. Tri took pains to minimize any appearance of a conflict of interest by adding that EVN does not meddle in its consultant's work. He acknowledged, however, that EVN still owns a controlling share in the firm.

SONG BUNG IV

16. (SBU) On February 29, Johnston and Econoff met with local EVN officials in the central port city of Da Nang to discuss the forthcoming construction of Song Bung IV, scheduled to start in 2009. The dam, 120 meters high, 360 meters long and 340 meters wide, will create a reservoir with a storage capacity of 621 million cubic meters and a surface area of 18.4 square kilometers. Located on the Song Bung River in Vietnam's central highlands, the area is

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one of Vietnam's poorest and most isolated regions, inhabited chiefly by Ca Tu ethnic minorities. Song Bung IV Project Manager Truong Thiet Hung said the GVN has allocated 500 billion VND (\$31 million) to relocate four Ca Tu villages comprising 209 households (1,178 people), and would provide monetary support for the purchase of rice for one year and other foodstuffs for six months.

17. (SBU) ADB safeguard policies mandate the implementation of a livelihood restoration program for those impacted by a project. Hung claimed Song Bung IV would have a nominal effect on the livelihood of villagers, chiefly riparian fisherman and subsistence farmers, because they would have access to new land and could fish in the dam's reservoir. Johnston asked Hung if EVN had conducted any preliminary studies to assess the potential adverse effects on fisheries production and other aquatic life. Chuckling, Hung replied, "not yet, but historic practice shows that fishing is easier in a reservoir." He also seemed amused by Johnston's suggestion that EVN conduct a study to ascertain where fish might congregate in the reservoir. "We don't think that will be necessary," he replied.

18. (SBU) After the meeting, Johnston, Econoff, ESTH Assistant and a guide from EVN traveled to western Quang Nam Province to visit the project site. EVN has yet to build access roads and the group set out on foot to reach the remote site. After walking for about one kilometer, however, a destroyed river crossing halted further progress. As such, we were unable to visit the site, speak with locals who would be affected by the dam's development, or glimpse any of the 140-hectare Song Thanh Nature Reserve, half of which will be inundated by the reservoir.

19. (SBU) Johnston ultimately said she was undecided whether to recommend support for Song Bung IV to the USAID Board, calling the EIA "very weak on baseline data," including analyses and mitigation measures. On other projects, she said, "these deficiencies have resulted in a technical recommendation to not support the project."

The USAID Board is not scheduled to meet to review the project until August, so there is still time for the developers to submit additional information, she added. Johnston said she would circulate her own assessment for comments before the August meeting.

Although a decision by USAID to withhold support would not affect the project financing, it would send a signal to the World Bank/IFC and ADB that the USG expects these institutions to ensure that developers write objective EIAs and execute all safeguard provisions or risk losing the support of the American taxpayer.

¶10. (U) Song Bung IV and Son La, with a combined capacity of 2,580-megawatts, are just two of the planned hydro projects in Vietnam's ambitious bid to add 50,000 megawatts of electricity, including 14,050 megawatts of hydropower, to the national grid by ¶2015.

MICHALAK